



Options for Revenue Generation in Post-Conflict Environments

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PREFACE

PUBLIC FINANCE IN POST-CONFLICT ENVIRONMENTS: A POLICY PAPER SERIES

In the wake of violent conflict, a key element of building a durable peace is building a state with the ability to collect and manage public resources. To implement peace accords and to provide public services, the government must be able to collect revenue, allocate resources, and manage expenditure in a manner that is regarded by its citizens as effective and equitable.

The tasks of revenue mobilization, budget allocation, and expenditure management are bound together by political imperatives as well as economic logic. To collect revenues, the state must be seen as legitimate in the eyes of its citizens. And to secure legitimacy, the state must allocate resources and manage expenditure effectively and equitably.

The need to build legitimate and capable states in war-torn societies is now widely recognized. *The Principles for Good International Engagement in Fragile States*, adopted by the development ministers of major donor countries in March 2005, declares that statebuilding is ‘the central objective.’ This represents a striking break from the prevailing wisdom in the closing decades of the 20th century, when the state was widely regarded as the problem. The state has been rediscovered: it is now invoked as the solution. The policy rhetoric has changed from downsizing states to building state capacity.

Yet little systematic work has been done on what the international community can and should do to strengthen the capacities of post-war states to mobilize, allocate, and spend public resources.

This policy paper series, jointly published by the Center on International Cooperation (CIC) at New York University and the Political Economy Research Institute (PERI) at the University of Massachusetts, Amherst, seeks to redress this gap by presenting innovative policy proposals targeting critical issues in postwar public finance.

Building state capacities in public finance is crucial to the success of peacebuilding efforts for three reasons:

- First, governments must be able to ensure *sustainable funding* for new democratic institutions, for social programs that ease tensions and redress grievances, and for public investments to promote economic growth and development. In the early post-war years,

countries often receive a large influx of external assistance that temporarily can meet some of these needs. But aid typically diminishes over time, so domestic resources are necessary to sustain these institutions and programs. A key challenge is to ensure that aid does not ‘crowd out’ domestic fiscal capacities, but instead stimulates their growth.

- Second, fiscal capacities are needed to build a *legitimate state*. Democratic elections do not, in and of themselves, ensure state legitimacy. Neither do ‘quick impact projects’ in which international aid agencies seek to fill urgent needs. Legitimacy comes in large part from government delivery of services that people need and want. Elections provide an avenue for the citizenry to voice demands; responding to those demands requires the capacity to mobilize, allocate, and spend public resources effectively.
- Third, in some cases there is a need to curtail extra-legal taxation by ‘warlords’ and armed groups so as to *enhance security*. In Afghanistan, for example, control of border customs outposts is not only a fiscal issue but also a security issue. Similarly, control over revenues from natural-resource extraction, such as logging in Cambodia or diamonds in West Africa, is often crucial for establishing the state’s monopoly not only in legitimate taxation but also in legitimate force. At the same time, domestic fiscal capacity is the only sustainable source of financing for public security after external peacekeepers have withdrawn.

The papers in this series offer policy proposals designed to strengthen the fiscal dimension of statebuilding. The authors draw on extensive personal experience in public finance matters in war-torn societies, and on lessons from comparative studies, including *Peace and the Public Purse: Economic Policies for Postwar Statebuilding* (Boulder: Lynne Rienner, 2007), the outcome of the first stage of the CIC’s statebuilding project. After a concise recapitulation of the problems to be addressed, the authors concentrate on proposing solutions that can be practically implemented.

We hope these policy papers will find a wide audience amongst those who are grappling with the difficult challenges of post-war reconstruction, and that the proposals they put forward will assist in the twin tasks of building legitimate and effective states and building a durable peace.

JAMES K. BOYCE

Lead economist, Peacebuilding as Statebuilding Program

REVENUE GENERATION IN POST-CONFLICT ENVIRONMENTS: EXECUTIVE SUMMARY

This paper advances five proposals for policies to improve revenue generation in post-conflict environments. In the aftermath of violent conflict there often is a gap between demands for the restoration of basic public goods and services, including jobs and security, and governmental capacity to generate revenue to meet these pressing needs. Improved revenue generation is a key task for building both a sustainable state and a durable peace.

CURRENT REVENUE-GENERATION POLICIES

Revenue generation depends primarily on three elements: tax policy, the revenue administration system and overall economic activity. Each of these elements is adversely affected by conflict. The challenge is exacerbated by weak state capacities for reform pressures from the international community to increase revenue so as to reduce dependence on external assistance and international policies that actually undermine revenue collection.

Revenue systems in low-income countries are more dependent on indirect taxation than those in industrialized countries. Policies to increase revenue therefore have focused on improving collections from indirect taxes, notably trade taxes. Efforts have also been made to introduce direct taxes on wages and business income to lay the foundation for a transition to greater reliance on these in later years.

Measures to improve revenue administration have focused on establishing basic infrastructure, developing information-management systems, strengthening customs administration, and creating large-taxpayer units that concentrate on the relatively small number of taxpayers likely to have the largest tax bills.

FIVE PROPOSALS TO ENHANCE REVENUE GENERATION

1. DONORS SHOULD ENTER INTO A MULTI-YEAR COMPACT TO PROVIDE MATCHING FUNDS FOR DIRECT BUDGET SUPPORT.

Linking budget-support aid to the amount of revenue collected will strengthen the incentive for the government to collect revenue, provide more predictable financing, free domestic leadership to focus on administrative reforms, and facilitate more effective cash management. A matching trust fund for this purpose can be part of a broader compact between the international community and the government. An open and transparent compact of this nature would set a good example for the dealings of the post-conflict government with its citizens more generally.

2. EXPLICITLY RECONSIDER HOW THE CONVENTION ON PRIVILEGES AND IMMUNITIES OF THE UNITED NATIONS IS INTERPRETED AND CLEARLY DELIMIT THE EXTENT OF TAX EXEMPTIONS UNDER THE CONVENTION.

The Convention on Privileges and Immunities of the United Nations was crafted 60 years ago, and many of its provisions have been extended to the international community more broadly. These provisions were designed before the advent of today's complex and multi-dimensional peace operations. There is need for a systematic reinterpretation of the convention regarding the extent of exemptions for United Nations missions and, by extension, bilateral missions, international agencies, and mission affiliates (international and local contractors) from local taxes, fees, and user charges.

3. REMOVE EXEMPTIONS ON PERSONAL INCOME TAX FOR FOREIGN CONTRACTORS AND THEIR FOREIGN EMPLOYEES WHEN DOUBLE TAXATION AGREEMENTS OR SIMILAR PROVISIONS ARE IN PLACE. WHERE THERE ARE NO SUCH AGREEMENTS, WORK TO INTRODUCE THEM.

A significant area of confusion involves the tax liabilities of foreign contractors and their foreign staff when there are double-taxation agreements or similar provisions. Granting a tax exemption in

these situations simply reduces the tax paid in the post-conflict country while increasing the tax paid in the home country. When foreign contractors and their foreign employees are following the laws of both their home jurisdiction and the post-conflict jurisdiction, then on financial grounds they should be indifferent to whether they receive a tax exemption or not. Moreover, the cost of the aid project will be unchanged, because the net return to the law-abiding contractor or employee will be unchanged by the removal of the tax exemptions.

4. WHERE DONOR COUNTRIES PROVIDE BUDGET SUPPORT, REMOVE THEIR CONTRACTORS' TAX EXEMPTIONS AND REDUCE DIRECT BUDGET SUPPORT COMMENSURATE WITH THE TAXES PAID.

Tax exemptions for contractors and their employees create excessive complexity, undermine the integrity of the revenue system, hamper the development of local businesses, and deprive the state of an important potential source of revenue in a time of few options. Removing these exemptions and counting taxes paid by contractors toward budget-support aid would help to build the revenue administration system and would have positive demonstration effects. This would not change the total amount of aid provided, but simply alter the way it is provided to help build the state's revenue-generation capacity.

5. INTRODUCE A TAX ON LAND HOLDING IN URBAN AREAS.

Land taxation is relatively easy to administer and relatively hard to evade. Such a tax can be based on value or simply on size. The focus should be on urban land for reasons of both scarce administrative capacity and social equity. The fact that the tenure of the land is often in dispute in post-conflict environments can actually facilitate introduction of a land taxation system, since the power of landowners in established political systems is less fractured. People making claims on disputed land would do so understanding that a successful claim brings with it a tax liability.

CONCLUSIONS

Post-conflict revenue authorities face a twin challenge – to generate increased domestic revenue to meet pressing needs and to build a system for sustainable revenue mobilization in the future. If the international community can more effectively support these tasks, the stability and fiscal sustainability of post-conflict states will increase.

A useful step in this direction would be to convene a meeting of interested participants to consider the taxation treatment of the international community in the broader development context. This could be organized under the auspices of the OECD's Development Assistance Committee, the UN Peacebuilding Commission, or the IMF. In a calm environment, the detrimental impacts of tax exemptions can be considered and informed choices made to reach a consistent interpretation of these issues. In the course of these discussions, other proposals presented in this paper, including the topics of double-taxation agreements and the provision of budget support, can also be considered. A package of policy options could then be put together that would strengthen the capacity of revenue authorities to do their job in raising the resources necessary to meet the urgent spending needs of post-conflict societies.

REVENUE GENERATION IN POST-CONFLICT ENVIRONMENTS

MICHAEL CARNAHAN*

Three key elements determine the effectiveness of revenue generation in any state: policies that determine the rates of taxation; the things that are taxable and the things that are exempt; the revenue administration system, which is the way in which the policies are implemented and revenue is actually collected; and the extent of economic activity, the things that can be taxed. In a post-conflict environment each of these elements has been adversely affected.

These difficulties are compounded by three additional factors. First, the capacity of the state to reform its policies and its institutions is weak, so progress is likely to be slow and difficult. Second, there is pressure from the international community to increase domestic revenue collection to reduce reliance on external budget support. Finally, while this pressure can, and has been used by some domestic leaders to push for needed reforms, the policies adopted by the international community in their own operations often undermine revenue collection and the building of a sustainable revenue collection system.

There is an intimate link between an effective system of public finance and other dimensions of statebuilding.

The use of domestic revenue to fund essential public goods such as health, education and basic infrastructure is at the heart of the social contract between the citizen and the state. In the absence of broad political support for the administration and acceptance of its legitimacy, there will be so much willful non-compliance with tax policies that even draconian enforcement efforts will yield very limited revenues. Without a functioning security sector, the enforcement and compliance activities needed to operate a revenue system will be inadequate. Moreover, in the absence of revenue collection the

security sectors will look to finance themselves through unofficial means.

This paper examines options for revenue generation in a post-conflict environment. It begins with a short summary of the elements and goals of a revenue system, a brief comparison of revenue collection across different groups of countries, and a review of the policies and reforms that have been implemented in recent post-conflict environments to enhance revenue collection. Against this setting, the remainder of the paper outlines three specific ways in which revenue collection could be enhanced and a sustainable revenue system could be built: by providing direct incentives through budget support for enhanced revenue collection, by restructuring the taxation treatment of the international community, and by focusing on land taxation in the post-conflict setting.

WHAT IS A REVENUE SYSTEM AND WHAT SHOULD IT DO?

Governments raise revenues so that they can spend the money to fund the provision of public goods such as law and order, public health, and education¹. In designing a revenue system the most important consideration is ensuring that there is adequate revenue to meet these essential needs. A range of

other factors is considered desirable. The system should be simple so that the administrative cost and the cost of compliance to citizens are low. Simplicity and transparency also

reduce corruption and make tax avoidance more difficult. The revenue system should also be economically neutral in that it should not favor one activity over another – this is regularly referred to as

The use of domestic revenue to fund essential public goods such as health, education and basic infrastructure is at the heart of the social contract between the citizen and the state.

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1/ For a longer and more general discussion see, for example, Nicholas Stern, "Aspects of the General Theory of Taxation," in N. Stern and D. Newbery eds. *The Theory of Taxation in Developing Countries* (New York: Oxford University Press, 1987).

having a broad base (i.e. tax all economic activities) with a low rate. Whenever any economic activity is exempted from taxes it means that all remaining activities must be taxed at a higher rate in order to collect the same amount of revenue.

The government must have the capacity to estimate the amount of revenue that will be collected under the existing legislation, enact legislative changes if this revenue needs to be increased, and then administer the revenue system to ensure that the revenue is actually collected. Estimating the available revenue involves analyzing the collections data from previous years, estimating changes in major macroeconomic parameters (such as GDP and inflation) and then estimating the likely impact on revenue collections.

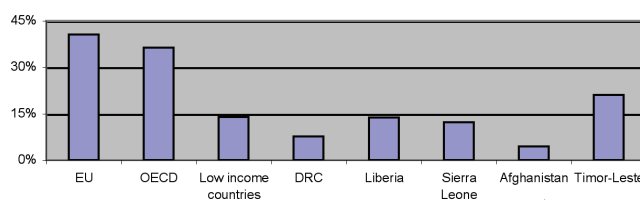
There are four key elements in taxation administration: registering and accounting for payments from taxpayers; annual assessments and reconciliation of amounts paid by taxpayers with overall obligations; taxpayer education and enforcement, which generally focuses on large taxpayers; and an active program of audits and court-based prosecutions. Customs administration also involves valuation of goods, determining eligibility for exemption, controls of import quotas, and physically examining goods.

THE CONTEXT: REVENUE COLLECTIONS IN POST-CONFLICT COUNTRIES

The experiences of revenue collection in post-conflict and developed countries are very different. On average, revenue systems in low-income countries tap a much lower share of economic activity than in higher-income countries, and post-conflict countries are often below the low-income country average. Figure 1 presents the level of revenue in relation to GDP in the EU, OECD, low-income countries, and select post-conflict countries.²

2/ Timor-Leste is an exception because of oil and gas revenues, but other revenue in the country is less than nine percent of GDP.

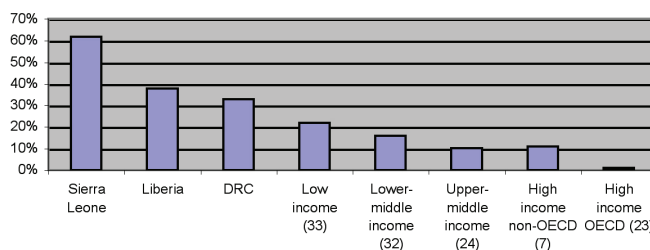
FIGURE 1: REVENUE/GDP



Source: Data for OECD and EU are from *OECD in Figures*, 2005; aggregate low-income country data are from *World Bank World Development Indicators* database; country data are from IMF Article IV consultation reports or statistical annexes. All refer to most recent year for which data are available.

A second feature is the balance between indirect and direct taxation. Indirect taxation (that is taxation of goods and services), including trade taxes, services taxes and consumption taxes, generally requires a lower level of administrative capacity than direct taxation (that is taxation of income), which includes personal and company income taxation. In developed economies around 60 percent of revenue is collected from direct taxation, with less than a third from indirect taxation (and the remainder from non-tax revenues). In post-conflict countries these figures typically are reversed with around half (and in some cases considerably more) coming from indirect taxes and less than a third coming from direct taxes. This also reflects the fact that in many post-conflict economies the formal sector (on which income taxes could be levied) is relatively small, with much of the population engaged in subsistence agriculture. Figure 2 highlights the comparatively high reliance of post-conflict countries on trade taxes, a subset of indirect taxes.

FIGURE 2: TRADE TAXES AS % OF GOVERNMENT REVENUE



Source: IMF Article IV reports for Sierra Leone, Liberia and DRC; other figures from K. Fukasaku, *Fiscal Impact of Trade Liberalization: A Review of Recent Country Experiences in Africa*, OECD Development Centre.

RECENT EFFORTS TO INCREASE REVENUE IN POST-CONFLICT ENVIRONMENTS

Efforts to support the mobilization of domestic revenue have been undertaken in most post-conflict

environments. This section presents a summary of the most common approaches taken.³ The efforts involve both trying to improve the policy environment and trying to improve administrative capacity.

IMPROVING REVENUE POLICIES

The first area of focus has been on improving revenue collections from indirect taxes, particularly taxes collected at the borders. Major reforms have focused on simplification of the number of tariff rates, number of classifications, and extent of exemptions. In Afghanistan, for example, 25 tariff rates that ranged from seven to 150 percent were replaced with a simplified six-rate structure.⁴

A second way in which revenue collections from border taxes have been enhanced is through **improved exchange rate policies**. In many post-conflict countries the exchange rate used to value goods for customs purposes is artificial. In Afghanistan, where the real exchange rate was around 40 afghanis to the US dollar, at the border an artificial rate of 4.5 afghanis to the dollar was used. By virtue of the resulting undervaluation of imports, the effective duty collected was around one-tenth of the nominal tariff. Moreover, border posts engaged in de facto competition by offering even more attractive exchange rates. Moving to the market exchange rate for valuation purposes was a critical part of the overall customs reform package. Similarly, in Lebanon and Rwanda a key IMF recommendation was the alignment of the customs exchange rate with the market rate.

As a short-term measure, a **tax on exports** also has been proposed in some countries such as Liberia, Timor-Leste, and Tajikistan. In general, this has been proposed in situations where one or two commodities constituted the bulk of the exports and production in these areas was rapidly restored

3/ Within the international development community primary responsibility for supporting post-conflict countries in developing their revenue-raising capabilities lies with the International Monetary Fund. This section of the paper draws on "Rebuilding Fiscal Institutions in Post-Conflict Countries" prepared by the IMF's Fiscal Affairs Division, December 2004 (<http://www.imf.org/external/np/fad/2005/022505.pdf>).

4/ For a more detailed discussion of the reforms in Afghanistan, see "Fiscal Management in Afghanistan: Major Achievements and Current Challenges" in M. Carnahan and N. Manning, *Reforming Fiscal and Economic Management in Afghanistan* (World Bank, 2004). In August 2006, the six-rate structure was expanded to a ten-rate structure.

after the conflict. While there were concerns over the distortionary impacts of such a tax, including discouraging investment in export sectors with associated risks to the balance of payments, such taxes were seen as necessary in the aftermath of the conflict – when there were few other options. When the capacity to introduce a **broader income tax**, including on the incomes of exporters, is in place, the export tax can be removed. In Timor-Leste, for example, a tax on the export of coffee was put in place in the immediate post-conflict period to raise revenue, but it was removed when a general income tax was implemented.

In many cases, **taxes on services** consumed predominantly by expatriates (restaurants, hotels, and telecoms) have been proposed. For example in Kosovo and Timor-Leste, a services tax of 10 percent was imposed on these three items. Vehicle rentals were also taxed in Timor-Leste. A turnover threshold ensured that businesses catering for local customers were exempt. The small number of businesses servicing the international community provides an easily identifiable tax base. This is one way in which the international community has been taxed. This helps lay a foundation for a broader consumption tax when the administrative capacity can support broadening of the base.

On the **direct taxation** side, in most countries some form of **income taxation** was proposed, even though such taxes are more difficult to administer. The major reason for introducing them early is the political difficulties associated with introducing them at a later stage when people are not accustomed to paying income tax. Where there was an existing income-tax regime, in countries such as Cambodia, Lebanon, and Tajikistan, recommended reforms included harmonizing and reducing tax rates to increase compliance and base-broadening through the removal of exemptions. A common form of income tax in the early post-conflict period has been a **flat withholding tax on wages** (e.g., in Albania, Bosnia and Herzegovina, and Kosovo), which is relatively easy to administer in a formal workforce dominated by civil servants and international organizations.

A range of measures also have been proposed **for taxing business income**. These included presumptive taxes on income for small businesses in Timor-Leste and Kosovo, based on factors including the type of product sold, the size of the enterprise, and a rough estimate of turnover. The revenue yield from these taxes was not anticipated to be high initially. However, again there is an imperative to introduce a tax system to encourage a culture of compliance from the start – especially in sectors expected to grow.

IMPROVING REVENUE ADMINISTRATION

Several measures have been undertaken to restore revenue administration in post-conflict contexts. The first priority typically is to **establish the basic infrastructure** for a functioning revenue administration, including buildings and equipment. In new countries or territories such as Timor-Leste, Kosovo, or Bosnia and Herzegovina, the requirements included physically sound buildings, telephone lines, and vehicles. Another key piece of infrastructure was **a basic information management system** able to produce revenue statistics and monitor operations. The second step was the appointment of essential senior staff.

Operationally, the first step involves **registration and identification of taxpayers**.

In many cases (e.g., Liberia, Serbia and Montenegro, Kosovo, Rwanda, Timor-Leste) this involved registering each taxpayer with a unique taxpayer identification number. This number was the basis for filing returns and cross-checking data. Administration was also improved by simplifying the procedures through which tax returns were filed, or instituting simple procedures in the case of new administrations.

An initial focus of domestic authorities in many post-conflict countries (e.g., Kosovo, Timor-Leste, Afghanistan), with international support, has been **strengthening the customs administration**, reflecting the need to increase actual revenue collections as rapidly as possible. Maintaining the focus

on high-yielding areas of administration, the authorities, again with international support, also have created **large-taxpayer units**, concentrating on the relatively small number of taxpayers who are likely to have the largest tax bills. Establishing these units has often been challenging because of the lack of a qualified pool of tax officials to effectively audit large taxpayers.

These efforts to improve revenue collection performance in post-conflict environments have achieved considerable incremental progress in many of the countries mentioned above. However, these reforms alone have rarely been successful in rapidly placing post-conflict states on a path to fiscal self-sufficiency—a critical determinant for sovereignty. One reason is that they have failed to confront some of the key challenges created by the international system, discussed below.

THREE NEW OPTIONS TO ENHANCE REVENUE GENERATION

The remainder of this paper advances three specific options to enhance revenue generation in post-conflict countries. The first option would alter the way that existing budget support is provided so as to create a direct incentive for domestic policy-makers to improve

However, these reforms alone have rarely been successful in rapidly placing post-conflict states on a path to fiscal self-sufficiency—a critical determinant for sovereignty.

revenue policies and administration. The second option is to revisit policies around the taxation of the international community in post-conflict countries, with a focus on building

the capacity of the revenue administration system, not simply to raise revenues. The final option is to increase land taxation, on the grounds that during post-war economic recovery taxing stocks of assets may be preferable to trying to tax limited flows of economic activity.

1. CHANGE THE WAY BUDGET SUPPORT IS PROVIDED BY DONORS

The first option for enhancing domestic revenue generation is to introduce a modality where budget support is provided to post-conflict countries through a *matching funds formula*.⁵

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5/ This discussion only focuses on the external assistance that is pledged to recipient countries in the form of budget support, generally through multilateral trust funds. In general, a far greater portion of funds are routed around the government through a parallel external public sector.

This approach sharpens the government's incentive to raise domestic revenue and to manage expenditure responsibly. From a broader state-building perspective it also introduces more predictable financing, frees up the time of the domestic leadership to focus on reforms, and allows for far more effective cash management. These support the more effective operation of the state, and through this the provision of a stronger enabling environment for the private sector. The associated growth then provides a stronger revenue base going forward.

Immediately after conflict, countries find themselves with a weak revenue system and a weak economy and are rarely able to fund the basic operations of the state – such as paying salaries. Often domestic revenues cover less than half of routine operating expenses.⁶ The remainder of the funds are provided by donor countries in the form of budget support. Budget support is often managed through a multilateral trust fund with an international agency as the trustee, such as the Afghanistan Reconstruction Trust Fund (ARTF – World

Bank as trustee) or the Law and Order Trust Fund for Afghanistan (LOTFA – UNDP as trustee), or the UNTAET Consolidated Fund for East Timor (CFET – UN as trustee). In some cases budget support is also provided as direct bilateral assistance. What happens in practice is that the domestic authorities prepare a budget outlining a proposed spending program and identify a financing gap. The budget and financing gap are presented at a donor meeting, where donors pledge – with varying degrees of commitment – to meet the financing gap. Over the course of the next year, the finance minister and their colleagues spend a considerable amount of time trying to translate the pledges of donors into actual cash disbursements in a timely enough fashion to meet the ongoing cash needs of the government's operations.⁷

6/ For example in the case of Timor-Leste for the first two post-conflict years, domestic revenue covered 37 percent of operating expenditure, while in Afghanistan the figure was 34 percent.

7/ The examples here are built on the author's experience as the director of the Budget Office, Central Fiscal Authority, in Timor-Leste and Senior Adviser to the Afghan Minister of Finance. The situation is similar in many other post-conflict

There are several negative consequences of this modality of supporting the operation of the post-conflict government. First, the incentive for the government to actually raise revenue is diminished. Taxing people is an unpopular task for any government. In a post-conflict environment with an inexperienced cabinet, the notion of raising tax rates or introducing new taxes to raise revenue is a very hard sell. Donors are seen as a much softer touch, and so difficult decisions to raise revenue are not taken.

The second problem with the provision of budget support in this way is that the opportunity is lost to build the capacity of the new government to handle the difficult macro-level expenditure-revenue trade-offs, or even the trade-offs among competing expenditure priorities. In most governments, the level of expenditure is set largely by the amount

The trade-off between raising taxes or reducing expenditure is lost when opportunistic ministers simply argue that spending should be increased – so the budget becomes a wish list presented to donors, not a tool that prioritizes across competing needs.

of revenue that can be raised. In the post-conflict environment, the trade-off between raising taxes or reducing expenditure is lost when opportunistic ministers simply argue that spending should be increased – so the budget

becomes a wish list presented to donors, not a tool that prioritizes across competing needs. Donors will not explicitly say no; they just won't contribute. Thus, unnecessary uncertainty is introduced into the budget process.

The third problem is the impact of the uncertainty associated with donor pledges and contributions on the cash-management task during budget execution. In a post-conflict country there is rarely any scope for borrowing to meet ongoing operational expenses. In this environment, the ability to effectively manage the cash of the government is critical. The uncertainty surrounding the timing and arrival of donor pledges into budget support trust funds means that predictable budget execution is not possible.

environments. For discussion, see S. Forman and S. Patrick, eds., *Good Intentions: Pledges of Aid for Post-Conflict Recovery* (Boulder: Lynne Rienner, 2000).

PROPOSAL 1: DONORS ENTER INTO A MULTI-YEAR COMPACT WITH THE HOST GOVERNMENT TO PROVIDE MATCHING FUNDS FOR DIRECT BUDGET SUPPORT PURPOSES.

To address these concerns, donors could agree to match a percentage of the funds collected by the host government up to a fixed limit. The matching percentage could be reduced over time, reflecting the increasing capacity of the host government to raise revenue, and the expected increase in economic activity and therefore the tax base. An example is presented in the table below.

The major challenge of such an approach involves the preparedness of donors to make their aid flows predictable and reliable.

EXAMPLE OF MATCHING FUNDS FOR BUDGET SUPPORT

Years	Domestic Revenue	Matching %	Donor Contribution	Total Budget
1	100	200%	200	300
2	150	150%	225	375
3	200	100%	200	400
4	250	75%	187	437
5	300	50%	150	450
6	400	25%	100	500
7	500	20%	100	600

In the first couple of post-conflict years, donors commit to significantly higher levels of budget support as a percentage of domestic revenue, reflecting both the lower domestic capacity to raise and spend, and the importance of providing strong incentives for domestic policymakers to take responsible taxation decisions. Operationally, the likely levels of domestic revenues, and the sorts of levels that would constitute appropriate stretch targets, could be agreed upon by IMF officials and donors.

In practice, the system would involve the creation of a trust fund into which donors would make contributions. The details of the agreement establishing the trust would specify its operations, but the simplest operation would involve monthly

certification of the changes, in the balance of the ministry of finance general revenue account at the central bank by an independent authority and then, based on these changes the automatic disbursement from the trust fund of the agreed amount into the revenue account.

The creation of this system would provide an impetus for a number of essential improvements in the public

finance architecture in the post-conflict environment. The primary advantage is that it places the incentive fairly and squarely on domestic

authorities to make responsible decisions in relation to domestic revenue mobilization. Rather than the crowding-out effect of traditional budget support, the matching funds approach has a crowding-in effect, heightening the incentive for revenue collection. In the early post-conflict years, recipient governments would know that each additional dollar of revenue that they raise actually provides them with an extra two or three dollars for domestic spending. In this way the domestic demand for revenue-enhancing reforms – the critical ingredient for their success – is heightened. Moreover, a matching-funds approach sharpens the link between revenue raising and increasing expenditure, provides much greater certainty to facilitate building stronger cash-flow skills in the treasury, and reduces the drain on the time now spent by the finance minister and senior officials in chasing donors to turn pledges into disbursements.

The major challenge of such an approach involves the preparedness of donors to make their aid flows predictable and reliable – putting into practice agreements on good donor practices made in such statements as the 2005 Paris Declaration⁸ or the DAC Principles for Good International Engagement in Fragile States⁹. The provision of funds in this way

8/The Paris Declaration, endorsed on 2 March 2005, is an international agreement in which over 100 ministers, heads of agencies and other senior officials committed their countries and organizations to continue and increase their efforts on harmonization, alignment and managing aid for results with a set of monitorable actions and indicators. See <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.

9/These principles were prepared following discussions at the January 2005 OECD Senior Level Forum on Development Effectiveness in Fragile States to build on the growing consensus about aid effectiveness. See <http://www.oecd.org/dataoecd/59/55/34700989.pdf>.

requires a greater degree of planning and discipline in donor operations than has been demonstrated in post-conflict environments to date. While a matching funds approach removes the opportunity to use individual budget contributions as a direct incentive to micro-manage the post-conflict government, a matching trust fund can be part of a broader compact between the international community and the post-conflict government. An open and transparent compact of this nature sets a good example for the dealings of the post-conflict government with its citizens more generally.

2. TAXATION OF THE INTERNATIONAL COMMUNITY

In any post-conflict setting, the operations of the international community, including the emergency and humanitarian activities, reconstruction activities, and the general level of economic activity associated with an increased international presence, represent a large share of the economic activity. Where subsistence agriculture represents another large share of the economy, the activities of the international community represent an even larger share of the formal economy. In its report on “Rebuilding Fiscal Institutions in Post-Conflict Countries,” the IMF notes:

Most post-conflict countries experienced a large influx of expatriates in connection with relief and reconstruction work. In general these incomes were exempt from taxation. The differential treatment of expatriates risked creating a culture of tax exemptions and made it more difficult to implement a simple tax system where all taxpayers faced a level playing field.¹⁰

Taxing the activities of the international community is a very emotive issue, with passionate views held by many stakeholders. It is also an area where there is a considerable degree of confusion and misunderstanding. The discussion that follows is intended to address some of these misunderstandings and clear up some of the confusion. The first part provides some background on the privileges and immunities enjoyed by the United Nations – which are generally used by other international players as a benchmark for their own concessions. The

consequences of administering these exemptions in the post-conflict setting are then examined. Foregone revenue is one concern, but a bigger concern is the damage that is done to the fragile revenue administration and the lost opportunity to build a more robust system. The third part addresses some of the most common objections raised by those opposed to paying taxes. The final part presents some concrete ways to support revenue generation from the international community.

BACKGROUND

In dealing with revenue authorities in host countries, the international community regularly situates its arguments within the Convention on the Privileges and Immunities of the United Nations.¹¹ The convention provides a clear set of immunities to the United Nations and its staff. The United Nations is exempt from all direct taxes (such as income taxes), but will not claim exemptions from charges for use of public utilities (Section 7a). It is exempt from customs duties (Section 7b), but will not as a rule claim exemption from excise duties (Section 8). International UN staff shall be exempt from taxation on their salaries (Section 18b) and have the right to import their furniture and effects free of duty when first taking up their posting, but they are not exempt from customs or excise duties on other goods imported for personal consumption. The convention makes no reference to the taxation treatment of national staff or contractors to the United Nations, nor does it refer to the UN’s system of “staff assessment.”¹²

When the UN mission is operating in a country with a sovereign government, a further set of privileges and

11/ The Convention on the Privileges and Immunities of the United Nations was adopted by the General Assembly on 13 February 1946. Most, if not all, bilateral agencies include a clause in their country agreements that guarantees them privileges and immunities that are “no less than” those enjoyed by the United Nations. Hence the focus here is on the convention.

12/ Staff assessment is sometimes characterized as a form of internal “tax” administered by the United Nations. UN staff salaries are expressed in gross and net amounts. The difference (the assessment) is not paid like a regular tax. Rather it is deposited into the UN’s Tax Equalization Fund, the purpose of which is to ensure horizontal equity for those employees who are liable to pay income tax because they are citizens of the handful of countries that have not signed the convention. The fund is used to offset tax payments by these employees and to offset financial obligations to support United Nations operations for those countries that are signatories to the convention. In effect, signatories pay lower UN dues while non-signatories pay higher dues and their citizens are compensated for being subject to income taxation.

10/ IMF FAD op cit, para 44.

immunities are contained in the agreement between the host government and the UN that establishes the mission. A model status of forces agreement (SOFA) presented to the General Assembly in 1990 (A/45/594) has been the basis for many of these agreements. This model confirms the convention but also extends it to add several other immunities, including the right to establish a commissary which can import goods free of duty for resale to members of the peacekeeping operation and the right to purchase goods and services locally free from sales taxes. It also obliges the government to provide accommodation to the mission free of charge; to provide water, electricity, and other utilities free of charge or at the most favorable rate; and to grant locally recruited staff immunity from taxation.¹³ The taxation treatment of contractors or their staff again is not covered. In Afghanistan the model was extended specifically to grant tax exemptions to UN contractors, other than local contractors.

The model SOFA thus establishes greater concessions than are included in the original convention. Country-specific agreements are generally negotiated to maximize the extent of exemptions and concessions. A real concern is that the host government finds itself in a very weak position, needing the peacekeeping mission to establish basic security, and so it is prepared to agree to whatever conditions are presented.¹⁴

When there is no host government, as in Timor-Leste or Kosovo, there is even less counterbalancing force to limit the immunities.

13/ There are, of course, anomalies in the application of even such routine requirements. For example, in Sierra Leone, the government had previously leased the building most suitable for UN mission headquarters to a private party, who was not bound by Security Council requirements and whom the mission then paid to sub-lease the building. In the absence of the government's initial lease, the mission would have occupied the building rent-free. Under the prevailing arrangement, however, the government received both rent and taxes from its lessee, and the UN's sub-lease covered both.

14/ See, for example, M. de Brito, *The Relationship between Peacekeepers, Host Governments and the Local Population*, Monograph 10, Conflict Management, Peacekeeping and Peacebuilding, United Nations Research Institute for Social Development (www.iss.co.za/Pubs/Monographs), for comments on the negotiations between the Mozambican Government and ONUMOZ.

CONSEQUENCES

Tax exemptions have several negative consequences for the host economy. They directly reduce the state's revenue – because taxes are not paid. Indeed, given that the major economic activity in the early years of post-conflict recovery revolves around the international community, exemptions of this nature remove the major potential source of revenue. Even more problematic, however, is the damage caused to

the integrity of the revenue administration system. In situations where missions have been deployed, administrative capacity is generally very low and the bureaucracy is often poorly

paid and corrupt. In building an administrative system that can work, there is an absolute premium on both simplicity and removing discretion. Concessions of this nature add an administrative burden and an additional layer of complexity to an already weak system. In doing this, they seriously undermine the chances of building a revenue system that can operate on a sustainable basis.

The **complexity** in the system is exacerbated by the blurred lines in regard to exemptions. There are relatively few who argue that international staff of UN missions, or international staff in donor agencies,

should be liable for host-country tax on the income they earn. However, as the funds move further and further into and through the economy, there is a question of when the exemption

should be stopped. Should a contractor to a donor organization be liable for tax? Should the foreign employees of the contractor, or the local employees of the contractor, or the local employees of a sub-contractor? Should staff be exempt from indirect tax as well as direct tax?

This complexity is illustrated in the Appendix Table which lists the different rules that currently apply to different entities in Kosovo. Tax liabilities vary for different organizations. They vary for depending on

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which organization they work for and on whether they are international or local staff. They vary for the contractors of different organizations, and again for the employees of different contractors to different organizations, again depending on the organization and whether the contractor and the employee are local or international. A revenue authority in a developed country would be criticized for this level of complexity. A revenue authority in a post-conflict country that allocates its scarce resources to managing this complexity will not be able to build a strong administrative structure.

The **integrity** of the revenue system is also damaged by the demonstration effect of the exemptions. In a weak system, compliance is a particular challenge—especially when the court system that is needed for enforcement is also weak. The attitude of trying to minimize taxation, rather than seeing revenue collection as a necessary state function, is adopted by others in the economy. In regard to user-charge collections, for example, compliance by private businesses is compromised when the major users (foreign missions) claim exemptions.

Finally, the tax exemptions to the international community hamper the development of local businesses. Merchants selling imported goods on which duty has been paid cannot compete with goods sold in the commissary, or with goods that have been imported duty-free for the international community and then sold privately—so these policies have the effect of favoring dishonest businesses over honest ones. Similarly, exemptions for international contractors give them a competitive edge over local contractors who have to pay tax, again hampering the development of the legitimate domestic private sector.

ARGUMENTS FOR THE MAINTENANCE OF EXEMPTIONS

The major argument for the maintenance of exemptions is more ideological than logical: “We are the international community, here to help the country, and we don’t pay tax.”¹⁵ It is partly

15/ A clear example is the response of the international community when a tax on rental income was introduced in Afghanistan. Many of the most expensive houses in Kabul are rented by members of the international community: missions, their contractors, international NGOs, or international staff. The income that landowners earn from renting their land or properties out to foreigners is taxable income. The Finance Ministry tried to introduce a withholding regime to

explained by the fact that many international organizations see themselves fundamentally as operating outside of – and in a sense, above – the state. Many staff in international organizations do not understand the importance of raising revenue for the creation of a sustainable state, in some cases because their own resources come from voluntary fundraising appeals, not from revenue collection. Moreover, the centrality of statebuilding to forging a durable peace and sustained poverty reduction remains contested by some.

The second argument against taxing international organizations, or their contractors or staff, is that this will reduce the amount of money that is available to be spent on development projects. While often considered by the development community to be a self-evident truth, this issue needs to be considered more closely. It rests on an assumption that a dollar allocated to an aid project has a better development or poverty reduction impact than a dollar allocated to the government. This assumption needs to be tested empirically. There is considerable literature on the ineffectiveness of aid spending.¹⁶ In a situation where the government is allocating a large share of its funds to pro-poor development activities, such as teacher salaries or basic medicines, it is not immediately obvious that removing exemptions from international organizations will lead to less effective spending on development projects. A related assumption is that the government is inefficient or corrupt, or both. However, payment of taxes helps to solve this problem by motivating taxpayer pressure for improved government performance, and this pressure would be enhanced if the international community also paid taxes.

SPECIFIC PROPOSALS

The four proposals presented below are designed both to allow for the removal of tax exemptions and

collect this revenue – that is, a system where the tenants withhold the income tax portion on behalf of the landowners and submit that money to the Revenue Authority – in the same way that employers withhold employees’ income tax in many countries. In most cases the international community simply refused to support this approach. They claimed that asking them to withhold the tax payments in this way represented a tax on them and in this way violated the Convention on Privileges and Immunity. Yet legally the tax is clearly levied on the income of the landowner, not on the rent paid by the tenant.

16/ See, for example, R. Rajan and A. Subramanian, “Aid and Growth: What does the cross-country evidence really show us?” IMF Working Paper WP05/127, June 2005; and W. Easterly, *The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, (Penguin Press, 2006).

to meet the concerns of the international community outlined above.

PROPOSAL 2: EXPLICITLY RECONSIDER HOW THE CONVENTION ON PRIVILEGES AND IMMUNITIES OF THE UNITED NATIONS IS INTERPRETED AND CLEARLY DELIMIT THE EXTENT OF TAX EXEMPTIONS UNDER THE CONVENTION.

There is need for a systematic reinterpretation of the Convention on the Privileges and Immunities regarding the extent of exemptions for United Nations missions and, by extension, bilateral missions, international agencies, and mission affiliates (international and local contractors) from local taxes, fees, and user charges. The convention was crafted 60 years ago in a very different environment from that in which the United Nations now operates. Today there are many more peacekeeping missions (only a quarter of all missions commenced in the first 40 years of the UN), and peacekeeping missions have become more complex, involving a broader array of activities. At the very least, there needs to be a consistent position taken across all missions, but the re-interpretation should also be mindful of the expanded role that agencies of the international community play in the security, political development, and economic development of the territories where they operate.

Presently the same debates are rehashed every time a post-conflict reconstruction mission is established. The UN legal office had the same arguments with the Revenue Authority in Kosovo as it had with the East Timor Revenue Service. It had the same arguments with the Ministry of Finance in Afghanistan. This repetition is wasteful in both time and resources. What is needed instead is a broader dialogue, possibly through the new Peacebuilding Commission of the UN, with involvement from the IMF and World Bank. This discussion needs to be held outside the cut and thrust of an individual post-conflict context. In this discussion, analysis of the broader consequences of the inconsistent and opportunistic application of the convention can be undertaken. Then the convention could be applied consistently in each new post-conflict environment.

PROPOSAL 3: REMOVE EXEMPTIONS ON PERSONAL INCOME TAX FOR FOREIGN CONTRACTORS AND THEIR FOREIGN EMPLOYEES WHEN DOUBLE TAXATION AGREEMENTS OR SIMILAR PROVISIONS ARE IN PLACE. WHERE THERE ARE NO SUCH AGREEMENTS, WORK TO INTRODUCE THEM.

A significant area of confusion involves the tax liabilities of foreign contractors and their foreign staff when there are double-taxation agreements or similar provisions in place. Consider the following example of a contractor who earns \$100,000 for work in a post-conflict country.¹⁷ Let the income tax rate in their home country be 30 percent, and the tax rate in the post-conflict country be 20 percent¹⁸. The tax liability with and without the exemption is presented below:

TOTAL TAX LIABILITY FOR FOREIGN CONTRACTORS AND THEIR EMPLOYEES

		With exemption	Without exemption
1.	Income	100,000	100,000
2.	Tax paid in post-conflict country (at 20%)	0	20,000
3.	Tax liability in home country (at 30%)	30,000	30,000
4.	Tax credit for foreign tax paid	0	20,000
5.	Actual tax paid in home country (=3-4)	30,000	10,000
6.	Total tax paid (=2+5)	30,000	30,000

Granting a tax exemption in these situations simply reduces the tax paid in the post-conflict country while increasing the tax paid in the home country. When foreign contractors and their foreign employees are

17/ This example applies equally to a contractor seeking a business-income or profit tax exemption and to the employee seeking a personal-income tax exemption.

18/ The marginal income tax rates in post-conflict countries have regularly been set well below the marginal income tax rates that apply in OECD countries.

following the laws of both their home jurisdiction and the post-conflict jurisdiction, then on financial grounds they should be indifferent to whether they receive a tax exemption or not. Moreover, the cost of the aid project will be unchanged, because the net return to the law-abiding contractor or employee will be unchanged by the removal of the tax exemptions.

In the absence of double-taxation agreements, revenue authorities in donor jurisdictions may not recognize taxes paid to revenue authorities in post-conflict countries as legitimate taxation payments. In this case, removing the tax exemption will indeed increase the costs of doing business. However, following on from Proposal 2, supporting domestic revenue mobilization involves putting processes in place to ensure that the revenue authorities in the donor countries do recognize these payments as legitimate taxation payments. Officials from the finance ministries and treasuries of donor countries regularly engage with the advisers and officials from the post-conflict ministries of finance and revenue authorities. A valuable form of assistance would be if these officials from the donor countries worked with their colleagues at home to ensure that credit was given for tax paid in the post-conflict jurisdiction. In this way, the tax exemptions could be removed with less complaint.

PROPOSAL 4: WHERE DONOR COUNTRIES PROVIDE BUDGET SUPPORT, REMOVE THEIR CONTRACTORS' TAX EXEMPTIONS AND REDUCE DIRECT BUDGET SUPPORT COMMENSURATE WITH THE TAXES PAID.

One of the ironies in post-conflict assistance is that donor countries stridently argue for tax exemptions for their contractors, claiming that development money shouldn't just go straight into the post-conflict country's treasury, yet at the same time they make contributions to a multilateral trust fund that makes payments into the post-conflict country's treasury. The primary rationale cannot be fiscal as the funds are spent regardless. Rather it is likely to be because the donor country wants to be able to demonstrate its generosity by publicly (and loudly) announcing every

penny it provides in budget support. However, if the goal is genuinely to build a stable and sustainable state, then those donor countries that do provide budget support can simply alter the way in which they provide their assistance to help support the creation of sustainable revenue institutions, without altering the overall direction or magnitude of their aid flows.

Consider the example of a donor country that has \$100 million in a variety of projects and provides \$30 million in budget support, into a trust fund. Rather than seek a tax exemption for their contractors, the donor could gross up the project to cover tax payments and reduce the amount of budget support by a corresponding amount. This is illustrated below.

TOTAL ASSISTANCE TO RECIPIENT GOVERNMENT TREASURY WITH AND WITHOUT EXEMPTIONS

		With exemption	Without exemption
1.	Projects executed by contractors	100	100
2.	Tax liability	0	10
3.	Budget support	30	20
4.	Total contribution to recipient treasury (=2+3)	30	30
5.	Total amount of assistance	130	130

This could be operationalized quite simply. The donor agency would simply treat the payment of taxes by its contractors and their employees as an additional acquittable expense, in much the same way that travel or per diems are currently treated. When making claims for payment, contractors would include evidence of tax paid as part of their expense claims.¹⁹ In reporting their assistance to the OECD Development Assistance Committee, donors would break out tax paid for each project, report the net

19/ If the proposals outlined above are implemented, care will need to be taken to ensure that firms cannot effectively "double dip" – by having their tax payments to the post-conflict revenue authority recognized as an acquittable expense and reimbursed, and then seeking credit for tax paid from the revenue authority in their home jurisdiction. This is an issue that could be addressed in the broad-ranging discussions envisaged under Proposal 2.

figure against the relevant sector, and then report all the tax paid by their contractors against the budget support category.

Again it should be stressed that this approach does not alter in any way the amount of assistance allocated to “development” projects – the main objection of those who argue for tax exemptions. Nor does it alter the total amount of assistance provided, including budget support. Rather it alters the way that assistance is provided, to leverage additional benefits in building the institutions of state that will be needed for stable and sustainable governance.

3. LAND TAXATION

The third proposal for revenue mobilization involves directly taxing an economic factor of production (land), rather than taxing economic activity or the use of that factor. This approach takes advantage of what is generally regarded as a liability, not an asset – the uncertainty around land tenure in post-conflict environments.

Post-conflict environments are characterized by reduced economic activity. Conflict means that current demand for goods and services is less certain, the infrastructure linking producers to market is uncertain, and the likelihood of being in a position to collect the returns tomorrow on investments made today is reduced.

A second characteristic of post-conflict environments is the depletion of many factors of production. Factors that are mobile are often moved out in order to generate economic returns elsewhere. The physical capital stock in a country in many cases has been degraded or destroyed by the conflict, while the financial capital has been invested in foreign markets to earn safer returns. Skilled labor often has emigrated in order to earn safer returns, and because skilled laborers are both more likely to be persecuted in conflicts and are more likely to be welcomed by third countries. The stock of land on the other hand, is immobile. So one option to mobilize revenue in the short to medium term is to tax the ownership of land.

PROPOSAL 5: INTRODUCE A TAX ON LAND HOLDING IN URBAN AREAS.

Land taxation is an option that is rarely considered in the post-conflict environment, often because the tenure of the land is in dispute. Yet the disputed tenure actually represents a key asset in introducing a land taxation system. It is often difficult to introduce land taxation in established political systems because landowners are generally a wealthy and powerful interest group who are well-placed to protect their interests. When land tenure is disputed, the power of this interest group becomes more fractured and the opportunity to introduce the tax is heightened. People making claims on disputed land would do so understanding that a successful claim brings with it a tax liability.

Land taxation is an excellent way to raise revenue: it is relatively simple to administer, and relatively hard to evade. The tax could either be based on the value of the block of land, or more simply on the size of the block. A land tax based on the size of the block would be very simple, transparent, and hard to evade – non-payment could simply result in seizure of the land.

The focus of any land taxation initiative should be on urban land rather than on all lands for two reasons. First, focus on the urban areas will be driven by scarce administrative capacity. Revenue offices already exist in major urban areas and the cadastral records will identify land parcels more easily – even if ownership is disputed. Second, much of the rural land is used for subsistence agriculture. For reasons of both equity and potential revenue yield, the focus should be on urban land.

CONCLUSION: TIME FOR AN INTERNATIONAL UNDERTAKING

In a post-conflict environment, the domestic authorities face a twin challenge. They must try to mobilize increased domestic revenue and at the same time build a system that will allow the mobilization of adequate revenue on a sustainable basis into the future. There is pressure by the international community to increase revenue mobilization in the short term. Yet this same international system engages in practices that exempt large portions

of economic activity from taxation, weaken the capacity of the nascent revenue administration to effectively do its job, and create incentives for the state to rely on external budget support rather than raise revenue domestically.

The proposals outlined in this paper are designed to improve the practices of the international community and more effectively support the mobilization of domestic revenue. This can be done in three complementary ways: by providing matching funds for budget support purposes, strengthening instead of weakening the incentive for domestic revenue mobilization; by reconsidering the tax treatment of the international community, so as to better tap the revenue potential in economic activity it generates while meeting the concerns of the international community; and by introducing taxation on urban lands.

Possibly the most critical proposal is to convene a meeting of interested participants to consider the taxation treatment of the international community in the broader development context. This could be organized under the auspices of the OECD's

Development Assistance Committee (DAC), the new UN Peacebuilding Commission, or the IMF. A blanket approach to exemptions may have been appropriate in the environment in which international missions operated 60 years ago – but their application needs to be re-interpreted. In a calm environment, outside the hurly-burly of an individual post-conflict country, the detrimental impacts of tax exemptions can be considered and informed choices made to reach a consistent interpretation of these issues. If the international community collectively decides to continue to support large exemptions, then it would do so mindful of the negative consequences for domestic resource mobilization and statebuilding. In the course of these discussions, other proposals presented in this paper, including the topics of double-taxation agreements and recasting the way that budget support is administered, can be considered together. A package of options could then be put together that would strengthen the capacity of the revenue authority to do its job in raising the resources necessary to meet the most urgent spending needs of the society.

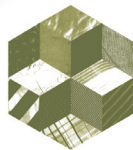
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APPENDIX 1

TAX EXEMPTIONS AND LIABILITY OF DIFFERENT ORGANIZATIONS, THEIR CONTRACTORS AND THEIR EMPLOYEES: THE EXAMPLE OF KOSOVO

	Organizations				Contractors of organizations					
	Profit tax	VAT on imports	Personal income tax on employees:		Profit tax		VAT on imports	VAT paid internally	Personal income tax on contractor's employees:	
			foreign	local					foreign	local
UNMIK, OSCE, UN agencies	N/A	Excluded	Exempt	Exempt	Exempt	Taxable	Rebatable	Liable	Exempt	Taxable
KFOR	N/A	Excluded	Exempt	Taxable	Taxable	Taxable	Rebatable	Liable	Exempt	Taxable
World Bank / IMF	N/A	Excluded	Exempt	Exempt	Taxable	Taxable	Rebatable	Liable	Exempt	Taxable
Euro. Agency for Reconstruction	N/A	Excluded	Exempt	Taxable	Taxable	Taxable	Rebatable	Liable	Exempt	Taxable
USAID	N/A	Excluded	Exempt	Taxable	Exempt	Taxable	Rebatable	Liable	Exempt	Taxable
Country agreements	N/A	Excluded	Exempt	Taxable	Exempt	Exempt	Rebatable	Excluded	Exempt	Taxable
Liaison offices (including EC)	N/A	Excluded	Exempt	Taxable	N/A	N/A	N/A	N/A	N/A	Taxable
NGOs	Partly	Rebatable	Exempt	Taxable	Taxable	Taxable	Liable	Liable	Taxable	Taxable
Provisional Government	N/A	Partly	Taxable	Taxable	Taxable	Taxable	Liable	Liable	Taxable	Taxable
Central Bank	Exempt	Liable	Taxable	Taxable	Taxable	Taxable	Liable	Liable	Taxable	Taxable
State-owned enterprises	Exempt	Partly	Taxable	Taxable	Taxable	Taxable	Liable	Liable	Taxable	Taxable
Private organizations	Taxable	Liable	Taxable	Taxable	Taxable	Taxable	Liable	Liable	Taxable	Taxable

Source: Kosovo Revenue Authority. This is a simplified version of the actual table used by the KRA. The full table contains an additional five categories: presumptive tax on organizations, foreign firms, and local firms; VAT on internal supplies by organizations and VAT on supplies made by contractors of organizations to organizations.



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